# Statement of Ira J. Goldstein

# The Reinvestment Fund

April 7, 2008

TRF Capital at the point of impact.

Introduction

Good morning. My name is Ira Goldstein and I am the Director of Policy and Information Services for The Reinvestment Fund (TRF). I am honored to be asked to come before you today and give you the results of our research into the predatory lending and mortgage foreclosure issues.

The organization of which I am part - TRF - is a national leader in the financing of neighborhood revitalization. Founded in 1985, TRF has invested over $700 million in the creation and preservation of affordable housing, community facilities, commercial real estate, and renewable energy. Since inception we financed the creation of more than 16,000 affordable housing units, 22,000 charter school slots, 6.4 million square feet of commercial space, and 400 businesses. We also have been actively involved in research related to various aspects of the housing market.

Our work in the areas of mortgage lending, foreclosure and predatory lending has been supported by grants from foundations, as well as contracts from local and state governmental entities. The research we do has both a strong, objective data-based component, as well as a systematic qualitative component. Today, I was invited to provide the results of TRF's study *Lost Values: a study of predatory lending in Philadelphia*. In my remarks today, I will provide highlights of that study and also some additional updated information on mortgage lending and foreclosures here in Philadelphia.

*Lost Values: a study of predatory lending in Philadelphia*

*Lost Values* was funded by the Ford Foundation. The results derive from a study of over 2,200 randomly selected properties across the city of Philadelphia and more than 13,000 properties in nine purposefully selected neighborhoods across the city. Data were also gathered through systematic interviews with people from all sectors of the mortgage lending process - from the borrower to the broker to the lender to the servicer and securitizer to the attorneys who represent borrowers and those who represent lenders to the Sheriffs who auction off properties on which homeowners are no longer paying their mortgage.

The quantitative data that we used allow us to inspect and quantify the complete mortgage and sale transaction history for each selected property. [A sample of the data we used is supplied as Appendix A.] Based on a thorough review of the literature and our interviews, we systematically coded patterns of transactions that were indicative of predatory lending. For example, we coded the presence of “rapid refinancing” which we defined as two or more subprime mortgages of increasing amounts within a one-year period. We also coded for the presence of a mortgage that likely exceeded the value of the property. Our third indicator was a pattern that we observed in the data and reflected the historic evolution of the mortgage industry. That pattern was measured as several small pre-1993 equity loans (typically originated by the locally active finance companies) refinanced into a larger subprime loan (originated after 1993). The significance of 1993 is that it is the watershed year for the growth in securitization of subprime mortgage loans.

Each of the aforementioned indicators of predatory lending is imperfect and potentially subject to multiple interpretations. The presence of more than one of these indicators is however, more likely than not, suggestive of predatory lending. What we found is that across the city of Philadelphia, 3.1% of all owner occupied properties had two or three of the aforementioned indicators of predatory lending. Of those owners that had three or more mortgages placed against their properties during the tenure of their ownership, the 3.1% rises to 14.1%. Moreover, some neighborhoods were impacted more significantly than others. Many of those areas more adversely impacted had below-average home prices and were home to disproportionate percentages of African American and Hispanic residents. Such areas, in some instances, had more than 30% of homes with a pattern of loans indicative of predatory lending.

Not all instances of predatory lending lead to a mortgage foreclosure – and not all foreclosures are the result of predatory lending. But, they often do go together.

Foreclosures in Philadelphia are an all-too-frequent event. [See Appendix B for two areas in Philadelphia with exceptionally high rates of foreclosure.] The period of time covered by *Lost Values* included a dramatic run-up in filings from a low of 5,096 in 2000 to a high of 6,343 in 2003. Calendar year 2003 was a post-2000 high and the number of filings dipped substantially to a low of 5,097 in 2005. Since then however, the number of filings rose over 22% to 6,237 in 2007 and there are no signs of a reduction in that trend. [See Appendix C – also in Appendix C are maps of foreclosure filings in Philadelphia for the period 2005-2006 and 2007.] We found that the frequency of indicators of predatory lending was two-and-a-half times as great in properties subject to a foreclosure filing than randomly selected properties. Most sobering among our findings was that more than 28% of properties subject to foreclosure in Philadelphia's lower and modestly-priced areas manifest multiple indicators of predatory lending.

Recent Local Trends

Since the release of *Lost Values*, the landscape has changed locally and nationally. You've had an opportunity to see and hear about the national situation but I wanted to take a moment and give you the benefit of some Philadelphia context. A few facts:

- Subprime lending in Philadelphia rose between 2004 and 2006 (the most recent date for which comprehensive data are available). The percent of home purchase loans that are subprime rose from 14.4% to 31.5%; the percent of mortgage refinance loans that are subprime rose from 24.2% to 41.8%. [See Appendix D]
- Concomitant with the rise of subprime lending is the decline of FHA lending. In 2003, FHA loans comprised 15.3% of all purchase money mortgages and 6.1% of mortgage refinances. In 2006, the percentages were 5.8% and 1.5% respectively. [See Appendix E]
- TRF has analyzed the percentage of the estimated aggregate value of real estate that has been mortgaged in any given year. The higher that percent, the greater

the exposure to adverse circumstances in the real estate and mortgage markets. In Philadelphia, the percent of the aggregate value of real estate that has been mortgaged is approximately 13.5%. That is well above the Pennsylvania average of just under 9%.

- During a period of time when household income in Philadelphia rose by 8.9%, the average prime purchase mortgage amount rose 29.6% and the average subprime mortgage amount rose 22%; the average prime refinance loan amount rose 16.2% and the average subprime refinance loan amount rose 43.6%.

Statewide, we are experiencing an increase in our mortgage delinquency and foreclosure rates, although those increases are not as severe as other states (e.g., Ohio, Nevada, Indiana, etc.). Servicing data show that between 2004 and 2007:

- The prime ARM percent of loans in a delinquency status stood at 6.33% on 12/31/07 – representing a 54.8% rise since 12/31/04.
- The subprime ARM percent of loans in a delinquency status stood at 27.17% on 12/31/07 – representing a 111.8% increase since 12/31/04.

Between 2006 and 2007, Pennsylvania's prime fixed-rate delinquency rate rose by a modest 1.45% and the subprime fixed-rate delinquency rate rose by 8.67%. However the prime ARM delinquency rate (although still substantially lower than the subprime ARM delinquency rate) increased 49.65%, exceeding the subprime ARM delinquency rate increase of 35.04%.

Loans made in 2006 and 2007 were remarkable in terms of their early delinquency experience. For all loan types, the first-year delinquency experience in 2007 exceeded the first-year experience for any year since 2004 (inclusive). Of note is that 22.2% of subprime ARMs originated in 2007 was already delinquent before the end of 2007. But even the mainstay prime fixed-rate loans were under pressure. Of prime fixed-rate loans originated in 2004, 1.66% was delinquent by the end of

2004; of prime fixed-rate loans originated in 2007, 2.36% were delinquent by the end of 2007 – a 42.2% increase.

There are zip code areas in Philadelphia in which servicing data show extraordinary levels of delinquency. For example, for the prime fixed-rate loans we observe:

| | | Prime Fixed | |
|---|---|---|---|
| Zip Cpde | | # | % Non-Current |
| 19142 | Southwest Phila | 2,081 | 15.38% |
| 19132 | Strawberry Mansion | 727 | 14.03% |
| 19138 | West Oak Lane | 1,814 | 13.86% |
| 19141 | Logan-Fern Rock | 1,393 | 13.32% |
| 19140 | Hunting Park-Tioga | 1,828 | 13.28% |

With prime ARMS we observe:

| | | Prime ARM | |
|---|---|---|---|
| Zip Cpde | | # | % Non-Current |
| 19120 | Olney | 321 | 16.93% |
| 19124 | Juniata-Feltonville | 327 | 13.19% |
| 19138 | West Oak Lane | 317 | 8.36% |
| 19111 | Burlholme-Lawncrest | 369 | 8.03% |
| 19149 | Frankford | 390 | 6.49% |

With subprime fixed-rate loans we observe:

| | | Subprime Fixed | |
|---|---|---|---|
| Zip Cpde | | # | % Non-Current |
| 19142 | Southwest Phila | 485 | 35.42% |
| 19140 | Hunting Park-Tioga | 406 | 25.81% |
| 19120 | Olney | 993 | 25.61% |
| 19149 | Frankford | 554 | 25.32% |
| 19135 | Tacony-Wissinoming | 430 | 24.47% |

And with subprime ARMs we observe:

| | | Subprime ARM | |
|---|---|---|---|
| Zip Cpde | | # | % Non-Current |
| 19143 | Kingsessing-Cobbs Cr | 317 | 32.90% |
| 19151 | Overbrook | 270 | 31.97% |
| 19142 | Southwest Phila | 227 | 31.96% |
| 19144 | Germantown | 236 | 29.74% |
| 19149 | Frankford | 289 | 29.50% |
| 19120 | Olney | 389 | 29.24% |

Notice that there are several zip codes that are among the most adversely impacted by mortgage delinquencies for more than one mortgage type (e.g., Olney, Frankford, and Southwest Philadelphia). A large percentage of mortgages that are delinquent will likely go to foreclosure. In this communities, not only will the homeowners and investors experience a loss, but so too will their neighbors whose homes will be devalued as a result of these foreclosures. Furthermore, the City and its school district will experience both a direct and indirect loss as a result of the inevitable loss of property value.

Final Comments

I would like to take a moment and speak about a universally accepted policy response that has great potential for helping homeowners in trouble: housing counseling. It is my first-hand observation that housing counselors generally try very hard to keep up both with changes in the lending and servicing industries and the extraordinary growth in volume of demand for their services. Yet, there is no industry-wide quality standard or measure of efficacy for counseling that we will be able to monitor as tens of millions of additional dollars are put aside for this effort. I would therefore recommend the creation and implementation of industry-wide quality standards and a compensation structure that relates not only to the volume of work but to the results of the counseling effort. I also suggest that the localized nature of this problem and available remedies (e.g., state programs or legal protections that exist uniquely in Pennsylvania but do not exist in other states) speaks to the importance of our attention to quality standards when the voice on the other side of the phone may be time zones away from the person in trouble.

Certainly, giving greater latitude and resources – along with greater accountability - to the FHA is appropriate. Our city, and other cities around the mid-Atlantic that we have studied (e.g., Baltimore, MD or Newark, NJ to name a few), experienced a dramatic decline in FHA lending. Underwriting, loss mitigation and servicing protocols for federally insured loans tend to be superior to practices of typical conventional subprime loan underwriters and servicers. Along with FHA's more significant role in the resolution of the mortgage foreclosure problem must be a federal commitment to insist and ensure that lender-originators and servicers abide by those protections.

If I were to point to a missing element in many of the plans discussed at the federal level it would be to bolster the enforcement responsibility of HUD, the Department of Justice, Federal Trade Commission and the regulatory agencies. One needs only to look at the number of cases on this issue by the FTC or Justice's Civil Division to see that it has not been a national priority. The lesson of the past is that deregulation coupled with anemic law enforcement is a recipe for disaster.

Lastly, it is important to remember when comparing Pennsylvania's experience to other states' that Pennsylvanians benefit greatly from the presence of its Homeowners' Emergency Mortgage Assistance Program (HEMAP). Each year, Pennsylvania Housing Finance Agency (PHFA) staff and certified counselors around the state review thousands of applications from Pennsylvanians at the brink of mortgage foreclosure. Typically more than 1,500 people are assisted per year. Those homeowners who get assistance from PHFA never reach foreclosure; were they to, Pennsylvania's numbers would look far worse. PHFA should also be commended for some novel approaches to working with people who have adjustable rate mortgages that are becoming unaffordable through its HERO and REAL programs. Finally, Pennsylvania's Legislature is moving on several bills that will strengthen the regulatory environment and enhance consumer protection for homeowners in Pennsylvania.

Thank you for inviting me to testify and I welcome your questions.

# Appendix A:
## Sample Mortgage and Sale Transaction History

```
Mun   :16                    [redacted]HAGERT ST                  Carrier
Map   :[redacted]            PHILADELPHIA, PA 19132-4245          Route : C031
Prcl  :                           PHILADELPHIA                    Census: 0168.0
TaxId:

------------------------------ Ownership Data ------------------------------

Current Owner: [redacted] Veronica
Mail Address :                PHILADELPHIA PA 19132-4245
Phone        :

--------------------------------- Tax Data ---------------------------------

Bldg/Subdiv  :
Land Use: 030, Row (3 or more), 2 Stories, Masonry
Land Assm:      $1,203   Lot Size: 152' x 112'      Style   : Unknown
Totl Assm:      $4,960   Lot Area: 17,156 sqft      Units   :      1
Exmp Assm:               Bld Area: 1,357 sq ft      Zoning  :
YearlyTax: $410          Stories : 2.0              Corner  : No
CrossSts :
---------------------------- Recording History ----------------------------
                         Rec Dt/     Book/ Grantee/Mortgagee
 Type    Amount          Stlmt Dt    Page  Address

 Sale $7,500             10/01/1980 0     [redacted] Veronica
                                    0
 Mort $8,064             08/26/1987 1198  MID PENN CONS DISC CO
                                    286
 Mort $5,676             02/19/1988 1371  ALL STATE DISC BLDRS INC
                                    474
 Mort $7,063             03/29/1988 1413  MID PENN NATL BK
                                    550
 Mort $6,840             06/15/1990 2227  MID PENN CONS DISC CO
                                    23
 Mort $5,128             07/16/1992 220   MID PENN CONS DISC CO
                                    335
 Mort $7,680             03/31/1993 526   SECOND NATL MTGE CO
                                    273
 Mort $17,233            12/16/1993 886   COMMERCIAL CREDIT PLAN CONS DISC CO
                                    481
 Mort $19,062            01/24/1994 935   COMMERCIAL CREDIT CORP
                                    153
 Mort $24,503            03/21/1995 1526  COMMERCIAL CREDIT CORP
                                    220
 Mort $29,250            12/15/1995 1824  INDUSTRY MTGE CO
                                    133
 Mort $3,828             11/26/1996 308   PHILA GAS HEATING CO
                                    451
 Mort $35,250            02/12/1997 423   AMERICAN MTGE REDUCTION INC
                                    153
 Mort $2,815             02/12/1997 426   AMERICAN MTGE REDUCTION INC
                                    497
 Mort $2,880             10/27/1999 3328  NORWEST FINANCIAL CONS DISC CO
 end.                               278
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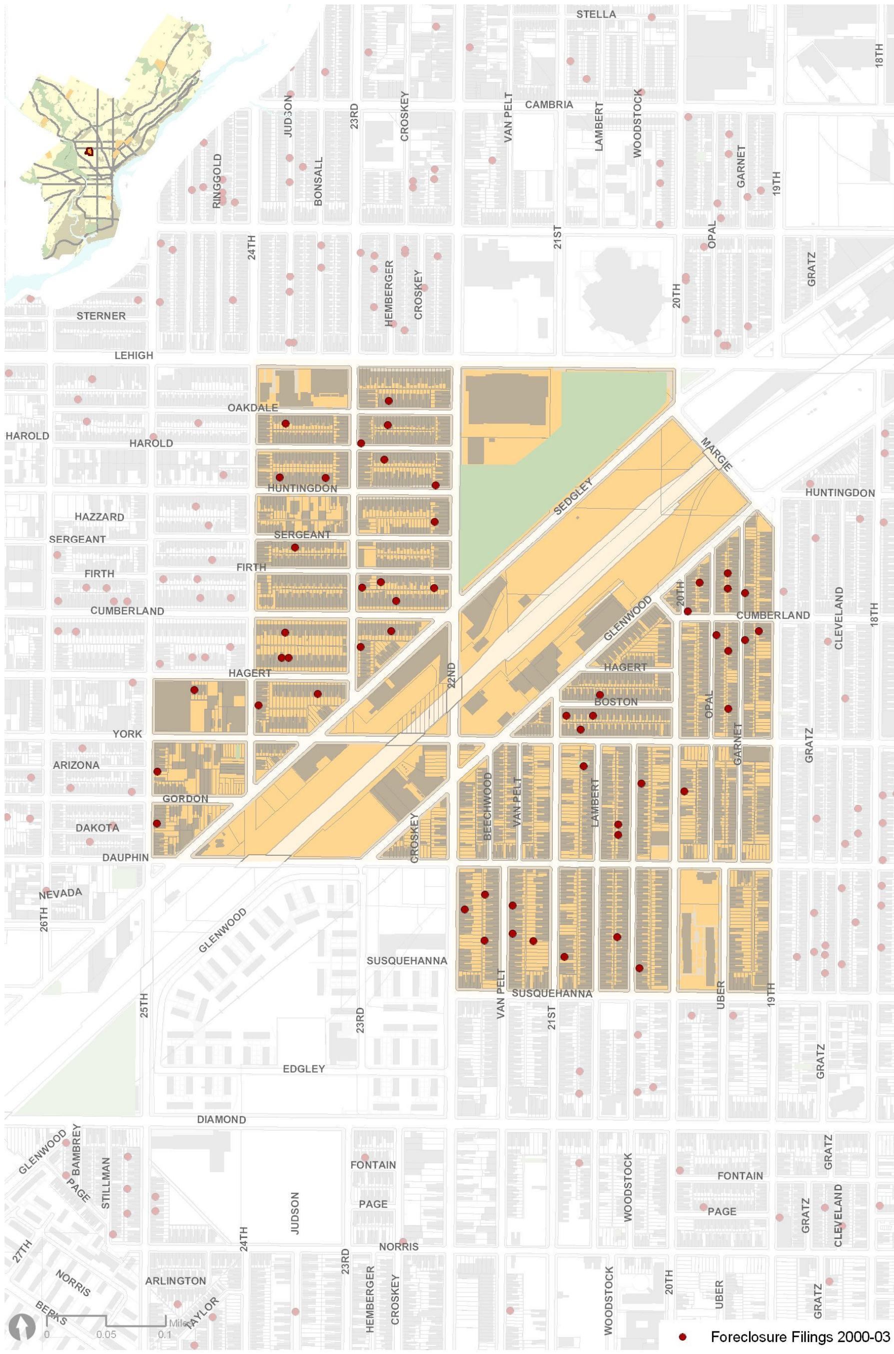
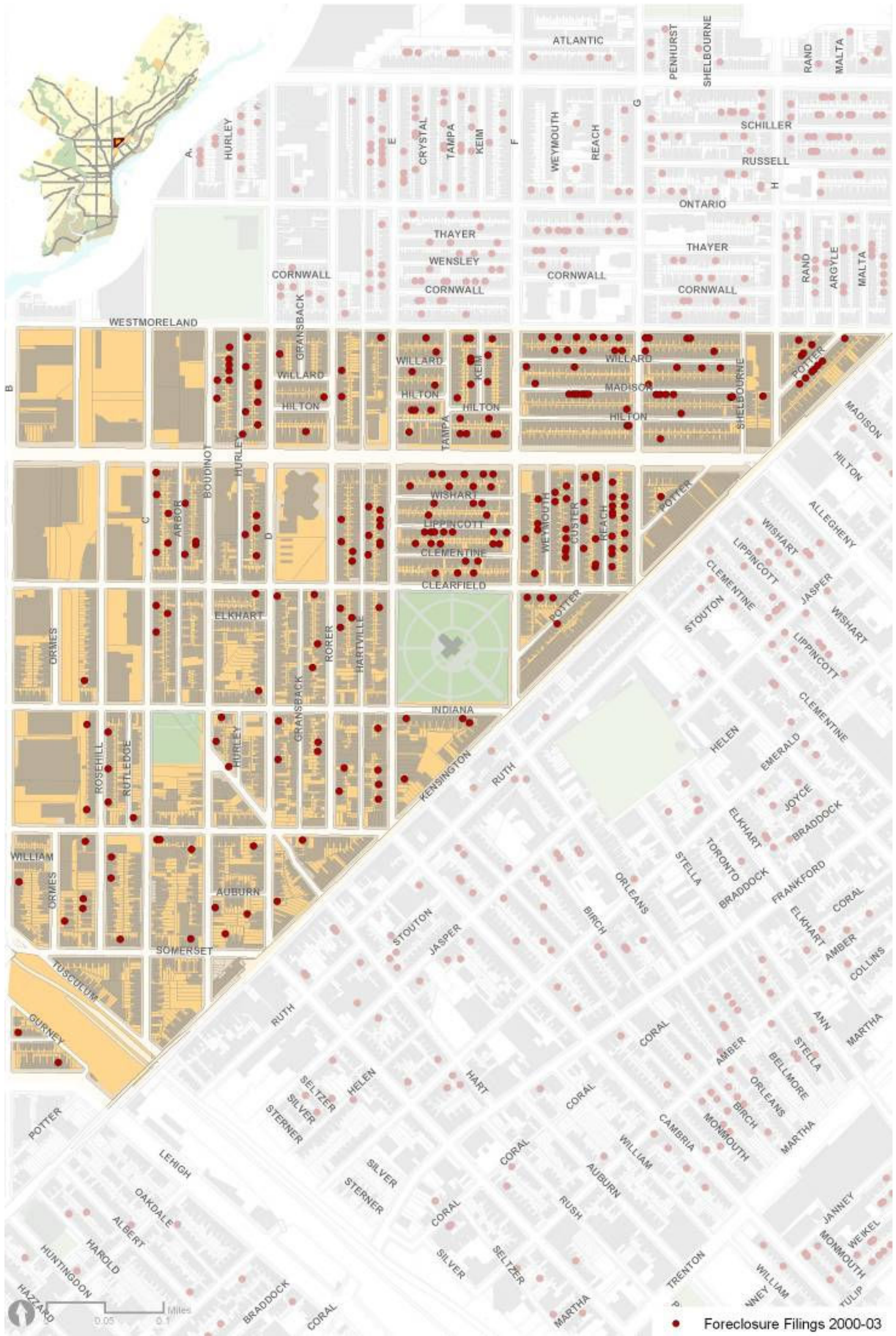
# Appendix B:
## Sample Census Tracts – Census Tract 168 (Glenwood)



Sample Census Tracts - Census Tract 188 (Juniata Park)



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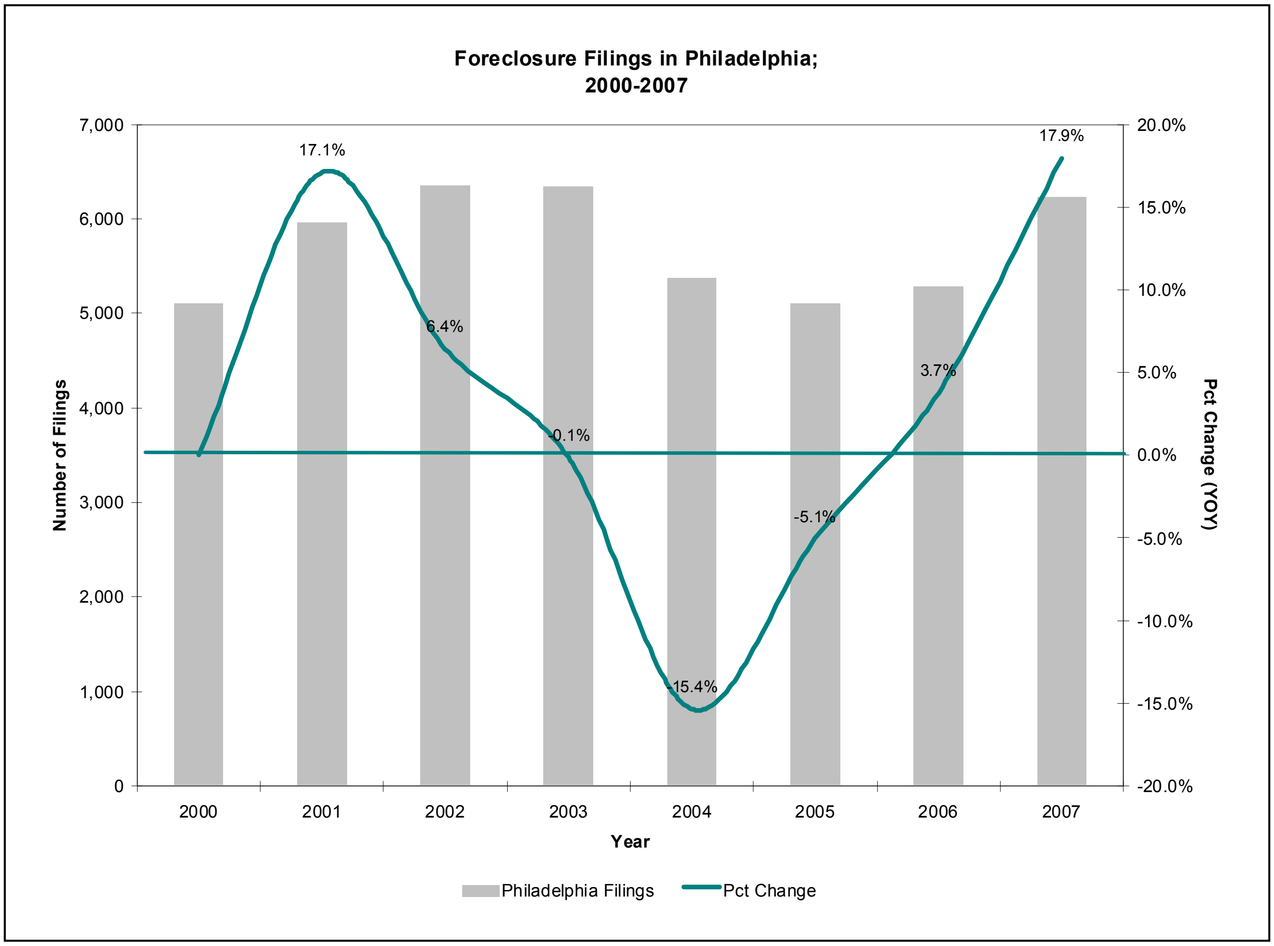
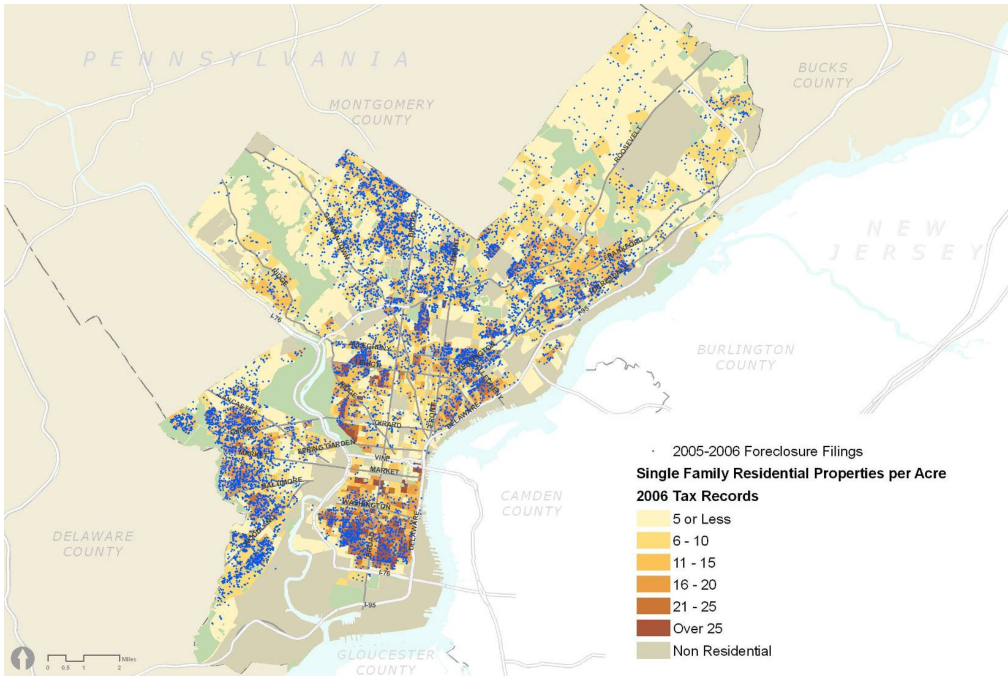
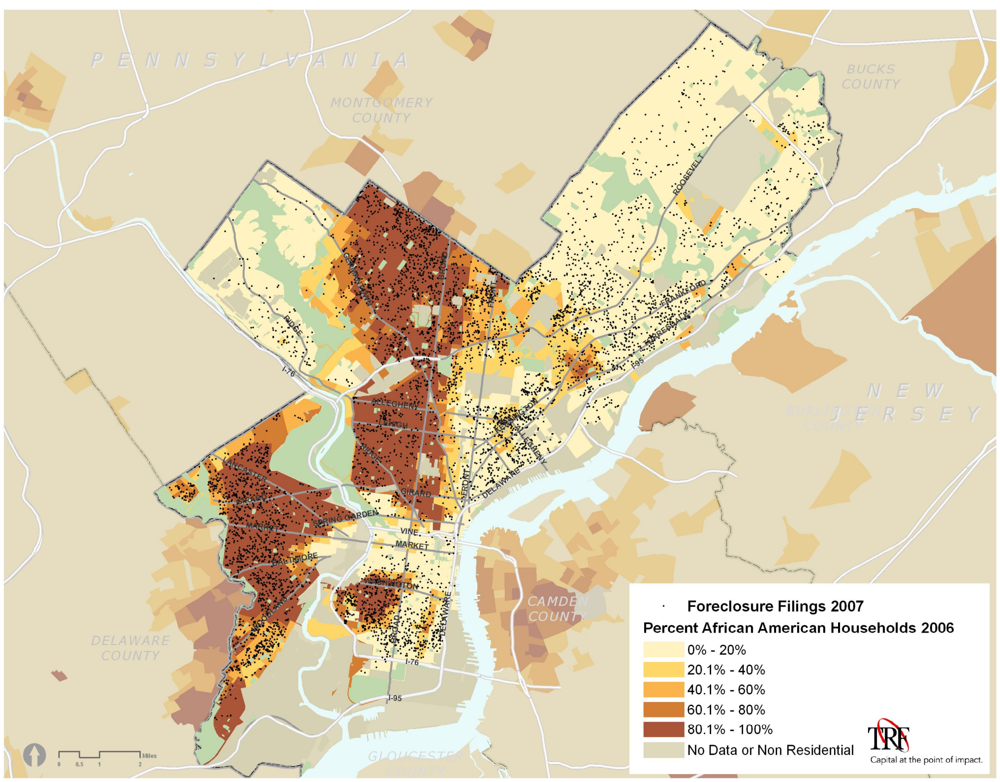
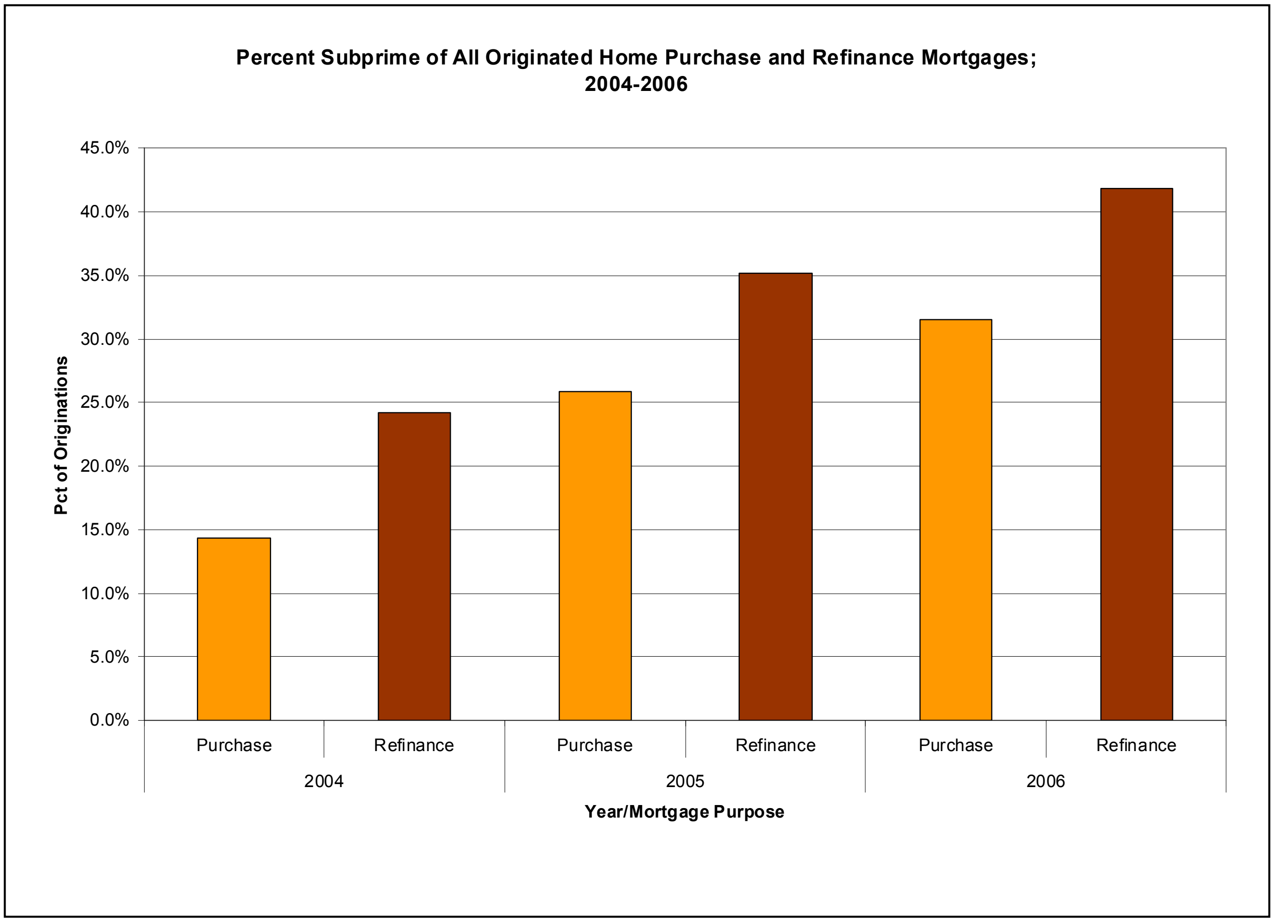
# Appendix C:
# Annual Foreclosure Filings in Philadelphia; 2000-2007




PENNSYLVANIA
MONTGOMERY COUNTY
BUCKS COUNTY
NEW JERSEY
BURLINGTON COUNTY
CAMDEN COUNTY
DELAWARE COUNTY
GLOUCESTER COUNTY
2005-2006 Foreclosure Filings
Single Family Residential Properties per Acre
2006 Tax Records
5 or Less
6 - 10
11 - 15
16 - 20
21 - 25
Over 25
Non Residential

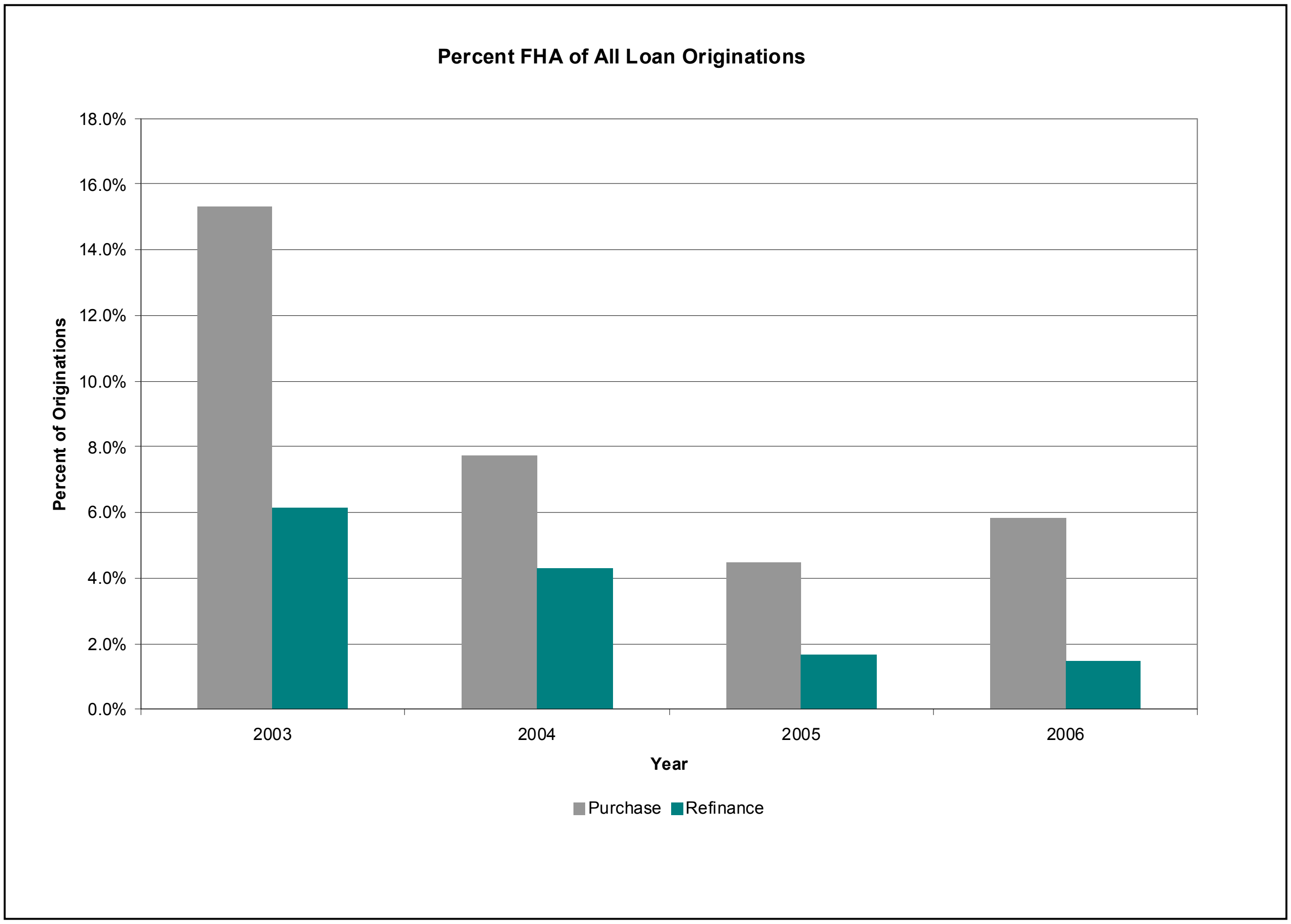

PENNSYLVANIA
MONTGOMERY COUNTY
BUCKS COUNTY
NEW JERSEY
DELAWARE COUNTY
Foreclosure Filings 2007
Percent African American Households 2006
0% - 20%
20.1% - 40%
40.1% - 60%
60.1% - 80%
80.1% - 100%
No Data or Non Residential
TRF
Capital at the point of impact.

# Appendix D:
# Percent Subprime; 2004-2006



# Appendix E:

# FHA Loans as a Percentage of Philadelphia Mortgage Originations



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